

NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

Financial Statements

Years Ended December 31, 2007 and 2006

NEW JERSEY BUILDING AUTHORITY

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Years Ended December 31, 2007 and 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
New Jersey Building Authority

We have audited the accompanying financial statements of the governmental activities and each fund of New Jersey Building Authority (the "Authority"), a component unit of the State of New Jersey, as of and for the years ended December 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each fund of New Jersey Building Authority as of December 31, 2007 and 2006, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2008 on our consideration of New Jersey Building Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

The management's discussion and analysis on pages 5-9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Mercaderes, P.C.
Certified Public Accountants

April 30, 2008

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
New Jersey Building Authority

We have audited the financial statements of New Jersey Building Authority (the "Authority") as of and for the year ended December 31, 2007, and have issued our report thereon dated April 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered New Jersey Building Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (CONTINUED)

Internal Control over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Jersey Building Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee, board of directors, and others within the Authority and the State of New Jersey and is not intended to be and should not be used by anyone other than those specified parties.

Mercaderes, PC
Certified Public Accountants
April 30, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the New Jersey Building Authority's (the "Authority") annual financial report represents our discussion of the Authority's financial performance and provides an overview of the Authority's activity for the year ended December 31, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant issues and activities and to identify any significant changes in financial position. Please read it in conjunction with the Authority's financial statements and notes.

Financial Highlights

- Issued \$96,665,000 of 2007 Series A Bonds to fund the completion of the Public Health, Environmental & Health Agricultural Laboratory Facility at the New Jersey State Police Headquarters Complex in West Trenton.
- Issued \$119,675,000 of 2007 Series B Bonds to refund the remaining 1997 Series Bonds.
- Investment income totaled \$4,847,418.
- Construction-In-Progress outlays totaled \$38,456,786.

Overview of the Financial Statements

The annual report consists of two parts - management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include the statements of net assets and governmental funds' balance sheets and the statements of activities and governmental funds' revenues, expenditures, and changes in fund balance/net assets.

With regard to the State of New Jersey (the "State"), the Authority is a component unit that provides services entirely or almost entirely to the State. Per GASB 14 requirements, the Authority is thus considered a blending unit for inclusion in the New Jersey Comprehensive Annual Financial Report. Blending requires the component unit's balances and transactions to be recorded in a manner similar to that used for recording the balances and transactions of the State, *i.e. as a governmental fund type*.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when measurable and available. Expenditures are recognized when the related liability is incurred. The exception to this rule is that principal and interest on long-term debt are recognized when due.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances. The statements of net assets and governmental funds' balance sheets present information on all of the Authority's assets and liabilities, with the difference between the two reported as fund balances/net assets. Fund balances/net assets increase when revenues exceed expenditures.

The statements of activities and governmental funds' revenues, expenditures, and changes in fund balance/net asset present information showing how the Authority's fund balance/net assets changed during the calendar year. All changes in net assets are reported as the underlying events occur, regardless of the timing of the related cash flows. Therefore, revenues and expenditures are reported in this statement for some items, such as accrued interest payable, that will result in cash flows in future calendar years.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis

Net Assets (in thousands) - Statements of Net Assets

	December 31,		Change
	2007	2006	2007-2006
Current assets	\$ 264,720	\$ 153,510	106.60 %
Non-current assets	523,271	592,349	(7.43)%
Total assets	787,991	745,859	5.64 %
Current liabilities	100,589	104,807	3.39 %
Non-current liabilities	664,818	618,020	5.91 %
Total liabilities	765,407	722,827	5.89 %
Net assets	\$ 22,584	\$ 23,032	(1.94)%

Change in Net Assets (in thousands) - Statements of Activities

	Year Ended December 31,		Percentage
	2007	2006	Change 2007-2006
Revenues			
Investment income	\$ 4,847	\$ 3,267	48.36 %
State rental payments	28,451	20,090	41.61 %
State appropriation	1,150	1,073	7.17 %
Amortization income	2,232	2,119	5.33 %
Total revenues	36,680	26,549	38.15 %
Expenditures			
Miscellaneous transaction costs	3	-	- %
Amortization expense	3,897	5,122	(23.91)%
Debt service interest	31,238	21,693	44.00 %
Arbitrage rebate expense	694	234	196.58 %
Other administrative expense	1,296	1,290	0.46 %
Total expenditures	37,128	28,339	31.01 %
Change in net assets	(448)	(1,790)	74.97 %
Net assets, beginning of year	23,032	24,822	(19.29)%
Net assets, end of year	\$ 22,584	\$ 23,032	55.68 %

Cash Receipts and Revenues

State rental receipts totaled \$88.4 million, of which \$28.4 million was associated with the interest portion of bond payments as identified on the official statements and \$60.0 million was associated with the pay-down of the principal portion.

Investment income increased \$1,580,124 from \$3,267,294 at December 31, 2006, to \$4,847,418 at December 31, 2007. The increase was attributable to having the majority of the 2006 Bond Series earning interest for an entire year (Health Lab initial construction funding of \$48.8 million was received in August 2006) and earnings on the 2007 Bond Series funds (Health Lab completion funding of \$96.7 million received in November 2007).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

NJBA received a State appropriation of \$1.2 million to cover its 2007 Administrative Budget, the majority of which was used to cover the salary and payroll related expenses \$(819,000) of its eight full-time and one part-time employee.

Construction Contract Payments

Construction contract payments in 2007 are as follows:

Table 1

Construction Contract Payments	2007 (in thousands)
State Police E.O.C.	\$ 937
State Museum	4,401
DOT Ewing	1,798
Education Building	284
Labor Building	260
State House Annex	189
Pineland Headquarters	30
State Police Building	577
Health Lab Facility	6,367
Total	<u>\$ 14,843</u>

There was significant progress on the State Museum and DOT Ewing Campus projects. The objective of the State Museum project is to retrofit the current HVAC system with a state-of-the-art zoned system to provide the appropriate stable climate for visitors, staff, and the valuable collections. The objective of the DOT Ewing campus project is to install new fire alarm systems in the main office building, steam plant, finance and administration building, and the engineering & operations Building to include all audio and visual fire alarm devices as well as head end systems.

Additionally, NJBA commenced with the pre-construction phase of the 275,000 square foot Public Health, Environmental & Health Agricultural Laboratory Facility at the New Jersey State Police Headquarters Complex in West Trenton.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Debt Service

During 2007, the Authority made principal payments of \$60.0 million, issued \$96.7 million of new debt to fund the completion phase of the Health Lab Facility, and issued \$119.7 of new debt to refund the remaining 1997 Bond Series.

Table 2 summarizes the change in debt service between the calendar years 2007, 2006 and 2005. During 2006, the Authority made principal payments of \$42.6 million and issued \$48.7 million of new debt to fund the initial construction phase of the Health Lab Facility.

	<u>2007</u>	<u>2006</u>	<u>Percentage Change 2007-2006</u>
Bonds payable	\$ 690,195	\$ 649,105	6.33 %
Capital Appreciation Bonds Payable	43,966	54,028	12.90 %
Accreted interest	<u>3,790</u>	<u>3,462</u>	9.47 %
Total Bond Payable	<u>\$ 737,951</u>	<u>\$ 706,595</u>	12.16 %

Subsequent to December 31, 2007, changes have developed in the tax-exempt auction rate bond markets, whereby the "AAA" rated bond insurers' exposure to the sub-prime mortgage crisis has negatively impacted the bonds that they insure. Several bond insurers have experienced rating downgrades into the "A" and "AA" categories by some or all three rating agencies. Other bond insurers remain rated "AAA," but have their ratings on credit watch negative, review for downgrade or negative outlook. The "AAA" ratings were essential to the operation of the auction rate bond market, as investors generally required an "AAA" rating as a minimum requirement for their purchase of auction rate bonds.

The Authority has \$181.8 million of auction rate bonds outstanding as of December 31, 2007. The interest rates on these bonds have increased substantially versus the interest rates in effect as of December 31, 2007. The State and the Authority are reviewing the impact of increased interest rates on debt service requirements and intends to take actions to mitigate the increase in interest rates. There is no assurance interest rates will not rise further or that the State and the Authority will be successful in mitigating the impact of such increased interest rates.

The NJBA Bond Ratings as of December 31, 2007 and 2006, were as follows:

	<u>2007</u>	<u>2006</u>
Fitch	A+	A+
Moody's	A1	A1
Standard & Poor	AA-	AA-

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

To provide the reader with a better understanding of the above ratings, included below is a schedule explaining the various ratings utilized by the three rating companies.

<u>Investment Grade</u>	<u>Moody's</u>	<u>Standard & Poor</u>	<u>Fitch</u>
Highest Quality	Aaa1	AAA+	AAA+
Highest Quality	Aa2	AAA	AAA
Highest Quality	Aaa3	AAA-	AAA-
High Quality	Aa1	AA+	AA+
High Quality	Aa2	AA	AA
High Quality	Aa3	AA-	AA-
Upper Medium	A1	A+	A+
Upper Medium	A2	A	A
Upper Medium	A3	A-	A-

Moody's uses a modifier of 1, 2, or 3 to show relative standing in a category (1 higher than 2, 2 higher than 3). Standard & Poor and Fitch use a modifier of plus or minus.

Contacting Financial Management

This financial report is designed to provide citizens, vendors, and creditors with a general overview of the New Jersey Building Authority's finances. If you have any questions about this report or need additional financial information, contact the Authority's fiscal office at P.O. Box 219, Trenton, New Jersey 08625-0219.

NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET December 31, 2007

	<u>Governmental Funds</u>	<u>Adjustments (Note F)</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and equivalents- restricted	\$ 176,643,195	\$ -	\$ 176,643,195
Accrued interest receivable	77,253	-	77,253
Minimum lease payments receivable	-	543,973,094	543,973,094
Deferred loss on advanced refunding of bonds	-	23,507,012	23,507,012
Deferred bond issuance costs	-	5,298,697	5,298,697
Property and equipment	-	35,911	35,911
Construction in progress	<u>-</u>	<u>38,456,786</u>	<u>38,456,786</u>
Total Assets	<u>\$ 176,720,448</u>	<u>\$ 611,271,500</u>	<u>\$ 787,991,948</u>
LIABILITIES			
Accounts payable			
Payable to State	\$ 220,654	\$ -	\$ 220,654
Other	4,351,802	-	4,351,802
Contractor retainage payable	2,374,063	-	2,374,063
Accrued bond interest payable	-	2,212,971	2,212,971
Arbitrage rebate payable	-	694,475	694,475
Bonds payable	-	737,951,402	737,951,402
Unamortized bond premiums, net of discounts	<u>-</u>	<u>17,602,107</u>	<u>17,602,107</u>
Total Liabilities	<u>6,946,519</u>	<u>758,460,955</u>	<u>765,407,474</u>
FUND BALANCES/NET ASSETS			
Restricted	<u>169,773,929</u>	<u>(147,189,455)</u>	<u>22,584,474</u>
Total Fund Balances/Net Assets	<u>169,773,929</u>	<u>(147,189,455)</u>	<u>22,584,474</u>
Total Liabilities and Fund Balances/Net Assets	<u>\$ 176,720,448</u>	<u>\$ 611,271,500</u>	<u>\$ 787,991,948</u>

NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET December 31, 2006

	<u>Governmental Funds</u>	<u>Adjustments (Note F)</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and equivalents- restricted	\$ 85,431,576	\$ -	\$ 85,431,576
Accrued interest receivable	78,271	-	78,271
Minimum lease payments receivable	-	450,110,211	450,110,211
Deferred loss on advanced refunding of bonds	-	20,052,295	20,052,295
Deferred bond issuance costs	-	4,709,923	4,709,923
Property and equipment	-	35,211	35,211
Construction in progress	<u>-</u>	<u>185,441,950</u>	<u>185,441,950</u>
Total Assets	<u>\$ 85,509,847</u>	<u>\$ 660,349,590</u>	<u>\$ 745,859,437</u>
LIABILITIES			
Accounts payable			
Payable to State	\$ 220,654	\$ -	\$ 220,654
Other	3,960,412	-	3,960,412
Contractor retainage payable	2,540,301	-	2,540,301
Accrued bond interest payable	-	1,097,112	1,097,112
Arbitrage rebate payable	-	233,832	233,832
Bonds payable	-	706,595,808	706,595,808
Unamortized bond premiums, net of discounts	<u>-</u>	<u>8,179,281</u>	<u>8,179,281</u>
Total Liabilities	<u>6,721,367</u>	<u>716,106,033</u>	<u>722,827,400</u>
FUND BALANCES/NET ASSETS			
Restricted	<u>78,788,480</u>	<u>(55,756,443)</u>	<u>23,032,037</u>
Total Fund Balances/Net Assets	<u>78,788,480</u>	<u>(55,756,443)</u>	<u>23,032,037</u>
Total Liabilities and Fund Balances/Net Assets	<u>\$ 85,509,847</u>	<u>\$ 660,349,590</u>	<u>\$ 745,859,437</u>

NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/NET ASSETS

Year Ended December 31, 2007

	Governmental Funds	Adjustments (Note F)	Statement of Activities
REVENUES			
Investment income	\$ 4,847,418	\$ -	\$ 4,847,418
State rental payments	28,450,824	-	28,450,824
State principal payments	60,006,248	(60,006,248)	-
State appropriation for administrative costs	1,150,000	-	1,150,000
Amortization income	-	2,232,471	2,232,471
Total revenues	<u>94,454,490</u>	<u>(57,773,777)</u>	<u>36,680,713</u>
EXPENDITURES			
Miscellaneous transaction costs	2,872	-	2,872
Amortization expense	-	3,896,805	3,896,805
Capital outlay	14,842,510	(14,842,510)	-
Debt service:			
Principal	60,006,248	(60,006,248)	-
Interest	27,321,728	3,916,713	31,238,441
Arbitrage rebate expense	-	694,475	694,475
Other administrative expenses	1,295,683	-	1,295,683
Total expenditures	<u>103,469,041</u>	<u>(66,340,765)</u>	<u>37,128,276</u>
Excess (deficiency) of revenues over expenditures	<u>(9,014,551)</u>	<u>8,566,988</u>	<u>(447,563)</u>
OTHER FINANCING SOURCES (USES):			
Long-term debt issued	216,340,000	(216,340,000)	-
Bond issuance costs	(1,089,999)	1,089,999	-
Premium on debt issued	9,829,929	(9,829,929)	-
Payment to bond refunding escrow agent	(125,079,930)	125,079,930	-
Total other financing sources (uses)	<u>100,000,000</u>	<u>(100,000,000)</u>	<u>-</u>
Change in fund balance/net assets	90,985,449	(91,433,012)	(447,563)
Fund balance/net assets:			
Beginning of year	<u>78,788,480</u>	<u>(55,756,443)</u>	<u>23,032,037</u>
End of year	<u>\$ 169,773,929</u>	<u>\$ (147,189,455)</u>	<u>\$ 22,584,474</u>

NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/NET ASSETS Year Ended December 31, 2006

	<u>Governmental Funds</u>	<u>Adjustments (Note F)</u>	<u>Statement of Activities</u>
REVENUES			
Investment income	\$ 3,267,294	\$ -	\$ 3,267,294
State rental payments	20,089,924	-	20,089,924
State principal payments	42,607,452	(42,607,452)	-
State appropriation for administrative costs	1,072,500	-	1,072,500
Amortization income	<u>-</u>	<u>2,119,095</u>	<u>2,119,095</u>
Total revenues	<u>67,037,170</u>	<u>(40,488,357)</u>	<u>26,548,813</u>
EXPENDITURES			
Miscellaneous transaction costs	-	-	-
Amortization expense	-	5,122,009	5,122,009
Capital outlay	19,065,641	(19,065,641)	-
Debt service:			
Principal	42,607,452	(42,607,452)	-
Interest	21,785,947	(93,014)	21,692,933
Arbitrage rebate expense	-	233,832	233,832
Other administrative expenses	<u>1,289,967</u>	<u>-</u>	<u>1,289,967</u>
Total expenditures	<u>84,749,007</u>	<u>(56,410,266)</u>	<u>28,338,741</u>
Excess (deficiency) of revenues over expenditures	<u>(17,711,837)</u>	<u>15,921,909</u>	<u>(1,789,928)</u>
OTHER FINANCING SOURCES (USES):			
Long-term debt issued	48,745,000	(48,745,000)	-
Bond issuance costs	(1,234,245)	1,234,245	-
Premium on debt issued	<u>1,072,908</u>	<u>(1,072,908)</u>	<u>-</u>
Total other financing sources (uses)	<u>48,583,663</u>	<u>(48,583,663)</u>	<u>-</u>
Change in fund balance/net assets	30,871,826	(32,661,754)	(1,789,928)
Fund balance/net assets:			
Beginning of year	<u>47,916,654</u>	<u>(23,094,689)</u>	<u>24,821,965</u>
End of year	<u>\$ 78,788,480</u>	<u>\$ (55,756,443)</u>	<u>\$ 23,032,037</u>

NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Authority

The New Jersey Building Authority (the "Authority"), a component unit of the State of New Jersey (the "State"), a body corporate and politic and an instrumentality of the State, was created in 1981 by the state legislature for the purpose of providing the capital resources (through the sale of bonds, notes, and other obligations) necessary to acquire, construct, reconstruct, rehabilitate or improve office buildings or related facilities necessary or convenient to the operation of any State agency.

In Chapter 174 of the Pamphlet Laws of 1992, the state legislature amended the Authority's statute to expand the types of projects the Authority can undertake. The Authority can also now construct or rehabilitate correctional facilities and renovate and preserve historic public buildings. The amendment also removed the \$250 million bond principal limitation.

Reporting Entity

The decision to include a potential component unit in the Authority's reporting entity is based on several criteria, including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the Authority has no component units.

Under a master lease with amendments for individual properties, the Authority has leased to the State the buildings constructed or renovated with funds provided from various bond offerings made by the Authority. The State is required to pay rent to the Authority in amounts sufficient to pay (1) debt service on the bonds outstanding (to the extent such debt service is not funded from other monies available in the debt service account of the debt service fund, as provided for in the master lease agreement) and (2) administrative expenses of the Authority. The lease transactions with the State are accounted for as direct financing leases.

The State is responsible for awarding and monitoring all contracts for the design, acquisition, and construction of projects, as well as supervising construction work and accepting the completed projects. Project costs incurred by the State are paid by the Authority's bond trustee out of the construction fund after approval by an authorized Authority representative. Pursuant to the terms of the master lease, the Authority is not liable or responsible for the adequacy, sufficiency and suitability of the plans and specifications of any contracts or agreements with respect to the acquisition or construction of these projects. During the master lease term, the State is responsible for all costs relating to the operation, maintenance, and repair of the projects. In addition, the State pays for all utilities, taxes, and governmental charges during the lease term.

At any time prior to the expiration of the master lease term, the State has the option to purchase the projects for a price of \$1 plus an amount sufficient to provide the full payment of the bonds and accrued interest in conformity with the bond resolution. If such option has not been exercised prior to the end of the lease term, the title to the projects will be transferred by the Authority to the State at that time.

NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

The obligation of the State to make rental payments is subject to and depends upon yearly appropriations being made by the state legislature for such purposes. In the event the State fails to make the necessary lease payments, the Authority may take possession of the projects and either lease or sell them to another party. In either case, the State is obligated to reimburse the Authority for any deficiency between the lease payments called for by the master lease and amounts paid by other parties.

Basis of Accounting

The Authority is a component unit of the State of New Jersey and is included in the general purpose financial statements of the State.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The basic financial statements consist of government-wide and governmental fund financial statements.

The Authority, as a single-program government, combines government-wide and governmental fund financial statements, which are linked together by a reconciliation.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenditures are recognized when incurred. The primary sources of revenues are rental payments received from the State of New Jersey, in accordance with the Authority's master lease agreement with the State.

The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when measurable and available. Expenditures are recognized when the related liability is incurred. The exception to this rule is that principal and interest on long-term debt are recognized when payment is due.

NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America for governmental units requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Funds Required by Bond Resolutions

In accordance with certain bond resolutions, the Authority has established the following restricted funds (accounts) to be held by US Bank, as trustee, to account for all revenue received by the Authority:

<u>Fund Accounts</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Construction	Any amount determined by the Authority after meeting requirements under the bond resolution for all of the other funds.	Payment of construction costs of any authorized projects.
Debt Service	Amounts needed to pay principal and interest on or before each interest payment date and principal installment date on the bonds.	Payment of principal and interest on the bonds.
Rebate	Estimated amount needed to pay arbitrage earnings.	Payment of arbitrage earnings to the federal government recorded as a payable in the financial statements.

NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds Required by Bond Resolutions (Continued)

For financial reporting purposes, the assets, liabilities, and fund balance/net assets and related revenues, expenditures, and other financing sources and uses of these funds have been combined.

The following sets forth the cash and equivalent balances in the above funds:

	December 31,	
	2007	2006
Construction fund	\$ 173,020,425	\$ 84,603,530
Debt service	3,038,129	619,860
Rebate and other	584,641	208,186
	<u>\$ 176,643,195</u>	<u>\$ 85,431,576</u>

Construction in Progress

In the government-wide financial statements, construction in progress is stated at cost, which includes direct construction costs and other expenditures related to construction, including capitalized net interest. All construction costs related to projects which are not yet completed are charged to construction in progress until such time as the projects are completed and put into operation. Construction in progress is reduced when assets are put into operation and an offsetting minimum lease payment receivable is established. The State is obligated to make payments to the Authority for the construction in progress funded by bonds issued by the Authority.

In the governmental fund financial statements, construction costs are recorded as capital outlay expenditures as such costs are incurred.

Capitalized Interest

In the government-wide financial statements, the Authority capitalizes all interest expense and income related to projects under construction. Capitalized interest charged to construction in progress was \$2,934,395 and \$10,501,477 for the years ended December 31, 2007 and 2006, respectively.

In the governmental fund financial statements, all interest income and expense is recorded in the statement of revenues, expenditures, and changes in fund balance as received and expended, respectively.

Bond Issuance Costs

In the government-wide financial statements, bond issuance costs are reported as deferred charges (assets) and are amortized over the term of the related debt.

In the governmental fund financial statements, bond issuance costs are expensed when incurred.

Bond Premiums/Discounts

Bond premiums, net of discounts, are recorded as liabilities in the statements of net assets and are amortized over the life of the debt.

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance/Net Assets

Fund balance/net assets are classified as restricted and can only be utilized upon approval by the State Treasurer.

Income Taxes

As an instrumentality of the State under existing statute, the Authority is exempt from both federal and state income taxes.

Administrative Expense

The Authority receives an appropriation from the State for salaries, fringe benefits, related costs for overhead, and other expenses that support the operations of the Authority.

Concentration of Risk

The Authority maintains cash and equivalent balances which may exceed federally insured limits. They historically have not experienced any credit-related losses.

Cash and Equivalents

During the year ended December 31, 2005, the Authority adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which requires uncollateralized deposits exposed to custodial risk to be disclosed. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits that are in the possession of an outside party. The following is a summary of the Authority's cash deposit by financial institution and the amount exposed to custodial credit risk at December 31, 2007 and 2006. The New Jersey Cash Management Fund is a pooled investment fund and is guaranteed by the State of New Jersey. Thus, deposits in the New Jersey Cash Management Fund are not subject to credit risk or custodial credit risk. The Authority's deposits at Wachovia and US Bank are insured by the Federal Deposit Insurance Corporation up to \$100,000.

	December 31,	
	2007	2006
Wachovia	\$ 44,228	\$ 27,081
US Bank	6,587,279	6,310,808
New Jersey Cash Management Fund	<u>170,011,688</u>	<u>79,093,687</u>
Total cash balance	176,643,195	85,431,576
Total collateralized deposits	<u>170,569,494</u>	<u>79,220,768</u>
Total deposits exposed to custodial credit risk	<u>\$ 6,073,701</u>	<u>\$ 6,210,808</u>

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

B. FINANCIAL INSTRUMENTS

Variable Rate Revenue Bonds, 2003 Series A Issue

In connection with its issuance of \$189,950,000 Variable Rate Revenue Bonds, 2003 Series A issued on August 15, 2003, the Authority has entered into six separate swap agreements, two each with Citibank, N.A., New York ("Citibank"), Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman Sachs") and Morgan Stanley Capital Services, Inc. ("Morgan Stanley"). The nature and purpose of each of these transactions is described below:

1) Interest Rate Swap Agreements

Under the terms of these agreements, which were executed on the same date and feature identical general terms, the Authority pays a fixed rate of 3.64% to Citibank, Goldman Sachs, and Morgan Stanley on a notional amount equal to the principal amount of the 2003 bonds being hedged pursuant to such swap. In return, the respective swap provider will pay the Authority a floating amount based on 62% of one month LIBOR plus .20% on the same notional amount. As the 2007 bonds are redeemed, the notional amounts of the respective swaps shall decrease proportionately. The purpose of these agreements is to achieve a fixed rate. The swaps remain in effect during the entire term of the 2003 bonds. The negative fair value of the swaps were \$8,144,295 and \$3,547,195 as of December 31, 2007 and 2006, respectively.

2) Credit Risk

As of December 31, 2007, the Authority was not exposed to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the Authority would be exposed to credit risk in the amount of the swaps' fair value.

3) Termination Risk

The swap contracts use the International Swap Dealers Association Master Agreement, which includes provision for standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes provision for an "additional termination event." That is, the swap may be terminated by the Authority if the counterparty's credit quality rating falls below "A-," as issued by Fitch Ratings or Standards & Poor, or "A3," as issued by Moody's Investors Service. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic fixed interest rate. Also, if the swap were to have a negative fair value at the time of termination, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

In connection with these agreements, no amounts are recorded in the financial statements other than the net interest expense resulting from the agreement.

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

C. MINIMUM LEASE PAYMENTS RECEIVABLE

Future minimum lease payments receivable from the State as of December 31, 2007, are as follows:

2008	\$ 88,279,475
2009	85,236,103
2010	75,318,214
2011	81,229,669
2012	66,078,266
2013-2017	226,577,170
2018-2022	96,016,557
2023-2027	<u>5,247,998</u>
	723,983,452
Less amounts representing interest	<u>(180,010,358)</u>
	<u>\$ 543,973,094</u>

The State is obligated to make payments to the Authority against the minimum lease payments receivable for the completed portions of projects funded by bonds issued by the Authority.

The Authority has contract commitments for the renovation of the State House Complex and for construction and renovations funded by bonds issued by the Authority as of December 31, 2007, in the approximate amount of \$22,402,383. Such commitments relate to various architectural and construction contracts under the project.

The Authority is engaged in certain legal proceedings relating to vendor claims. Management of the Authority believes the outcome of these proceedings will not have a material adverse effect on the Authority's financial statements.

D. BONDS PAYABLE

Bond activity for the years ended December 31, 2007 and 2006, was as follows:

Balance, December 31, 2006	\$ 706,595,808
Additions	232,010,594
Reductions	<u>(200,655,000)</u>
Balance, December 31, 2007	<u>\$ 737,951,402</u>
Balance, December 31, 2005	\$ 700,798,396
Additions	52,305,509
Reductions	<u>(46,508,097)</u>
Balance, December 31, 2006	<u>\$ 706,595,808</u>

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

D. BONDS PAYABLE (CONTINUED)

2007 Series A

In November 2007, the Authority issued \$96,665,000 of 2007 Series A Bonds. The proceeds were used to finance the construction of the New Jersey Public Health Lab project.

The bonds were issued at a premium of \$3,813,983. The bonds mature at various amounts from June 2009 through 2027. The bonds bear interest rate of 5%.

2007 Series B Refunding Bonds

In November 2007, the Authority issued \$119,675,000 of 2007 Series B Bonds. The proceeds were used for the costs of issuance of the 2007 Series B Bonds and to refund the 1997 Series Bonds in the aggregate original principal amount of \$120,055,000. The bonds mature at various amounts from June 2008 through June 2018. The bonds bear interest rate of 5%.

In connection with the 2007 refunding, the Authority realized a loss on refunding of \$5,024,931, which has been included in deferred loss on advance refunding of bonds on the balance sheet and is being amortized over the average remaining lives of the refunded bonds.

2006 Series A

In August 2006, the Authority issued \$48,745,000 of 2006 Series Bonds. The proceeds were used to finance a portion of the construction of the New Jersey Public Health Lab project.

The bonds were issued at a premium of \$1,072,908. The bonds mature at various amounts from June 2008 through 2027. The bonds bear interest rates ranging from 4.00% to 6.00%.

2004 Series A

In December 2004, the Authority issued \$4,080,000 of 2004 Series A Bonds. The proceeds were used to fund the following:

- a. Renovating the elevators in several State office buildings.
- b. Retailing work in the New Jersey Department of Transportation Engineering and Operations Building.
- c. Upgrading the fire alarm systems in several State office buildings.
- d. Paying the costs of issuance of the 2004 Series A Bonds.

The bonds were issued at a premium of \$51,365. The bonds mature at various amounts from June 15, 2007 through June 15, 2014. The bonds bear interest rates ranging from 3.00% to 4.00%.

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

D. BONDS PAYABLE (CONTINUED)

2004 Series B Refunding Bonds (Continued)

In December 2004, the Authority issued \$48,795,000 of 2004 Series B Bonds. The proceeds were used for the costs of issuance of the 2004 Series B Bonds and to refund \$34,629,817 of previously issued bonds, including \$10,739,817 of 1991 Series Bonds, \$4,665,000 of 1999 Series Bonds, \$2,175,000 of 2000 Series Bonds, and \$17,050,000 of 2002 Series A Bonds.

The bonds were issued at a premium of \$4,613,593. The bonds mature at various amounts from December 15, 2006 through December 15, 2016. The bonds bear interest rates ranging from 3.375% to 5.25%.

This refunding was done to achieve interest cost savings. Proceeds of the bonds were used to establish an irrevocable escrow account. Funds in the escrow account were invested in special direct obligations of the United States Treasury or other obligations of the United States government or its agencies. The escrow securities and their earnings are structured to pay the principal and interest on the refunded bonds as such payments become due until the call dates of the respective refunded bonds, at which time the escrow agent will pay the principal of the refunded bonds at a price of par plus accrued interest. Since these funds have been placed in an irrevocable trust, the bonds are considered defeased and the liability for such bonds were removed from the balance sheet.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3,261,194 in 2004. The difference was reported with deferred charges in the statement of net assets and is being charged to expenditures using a method which approximates the effective interest method over the shorter of the remaining life of the old debt or the life of the new debt. The economic gain from the advance refunding in 2004 was approximately \$203,000.

2003 Series A Refunding Bonds

In August 2003, the Authority issued \$189,950,000 of 2003 Series A Bonds. The proceeds were used to refund \$174,300,000 of previously issued bonds, including \$76,770,000 of 1994 Series Bonds, \$56,530,000 of 1999 Series Bonds, \$12,695,000 of 2000 Series Bonds, and \$28,305,000 of 2002 Series A Bonds.

The bonds were issued at par. The bonds mature at various amounts from June 10, 2005 through June 15, 2023. The bonds bear interest based on a variable rate.

In connection with the 2003 refunding, the Authority realized a loss on refunding of \$13,081,720, which has been included in deferred loss on advance refunding of bonds on the balance sheet and is being amortized over the average remaining lives of the refunded bonds.

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

D. BONDS PAYABLE (CONTINUED)

2002 Series A

In December 2002, the Authority issued \$65,375,000 of 2002 Series A Bonds. The proceeds were used to finance the costs of the State Police Emergency Operations Center.

The bonds were issued at a premium of \$2,792,000. The bonds were scheduled to mature in various amounts from December 2005 through December 2023. The bonds bear interest rates ranging from 2.05% to 5.25%.

In August 2003, \$28,305,000 of the 2002 Series A Bonds were refunded by the 2003 Series A Bonds. As a result, the \$28,305,000 principal amount of the 2002 Series A Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet.

In December 2004, \$17,050,000 of the 2002 Series A Bonds were refunded by the 2004 Series B Bonds. As a result, the \$17,050,000 principal amount of the 2002 Series A Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet.

The remaining bonds payable mature in various amounts through 2012.

2002 Series B Refunding Bonds

In December 2002, the Authority issued \$210,515,000 of 2002 Series B Bonds. The proceeds were used to refund \$212,930,000 of previously issued bonds, including \$164,920,000 of 1994 Series Bonds, \$26,335,000 of 1997 Series Bonds, \$18,550,000 of 1999 Series Bonds and \$3,125,000 of 2000 Series Bonds.

The bonds were issued at a premium of \$21,355,000. The bonds were scheduled to mature in various amounts from December 2005 through December 2023. The bonds bear interest rates ranging from 2.05% to 5.25%.

In connection with the 2002 refunding, the Authority realized a loss on refunding of \$11,066,000, which has been included as part of the deferred loss on advance refunding of bonds in the balance sheet and is being amortized over the average remaining lives of the refunded bonds.

The remaining bonds payable mature in various amounts through 2015.

2000 Series

In August 2000, the Authority issued \$29,000,000 of 2000 Series Bonds. The proceeds were used to finance the costs of the 2000 series projects, consisting of the Justice Complex and the Department of Transportation project.

The bonds were issued at a discount of \$425,000. The bonds were scheduled to mature at various amounts from June 2001 through June 2020. The bonds bear interest rates ranging from 4.350% to 5.125%.

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

D. BONDS PAYABLE (CONTINUED)

2000 Series (Continued)

In December 2002, \$3,125,000 of the 2000 Series Bonds were refunded by the 2002 Series B Bonds. As a result, the \$3,125,000 principal amount of the 2000 Series Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet.

In August 2003, \$12,695,000 of the 2000 Series Bonds were refunded by the 2003 Series A Bonds. As a result, the \$12,695,000 principal amount of the 2000 Series Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet.

In December 2004, \$2,175,000 of the 2000 Series Bonds were refunded by the 2004 Series B Bonds. As a result, the \$2,175,000 principal amount of the 2000 Series Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet.

The remaining bonds payable mature at various amounts through 2011.

1999 Series

In October 1999, the Authority issued \$134,925,000 of 1999 Series Bonds. The proceeds were used for the acquisition of the Richard J. Hughes Justice Complex and for construction of a new facility to house the New Jersey Department of Treasury's Division of Revenue and State Police Troop "C" Headquarters. The project for the new facility has since been renamed the State Police Multi-Purpose Building and Troop "C" headquarters.

The bonds were issued at a premium of \$2,502,000. The bonds were scheduled to mature at various amounts from June 2000 through June 2019. The bonds bear interest rates ranging from 5.0% to 5.75%.

In December 2002, \$18,550,000 of the 1999 Series Bonds were refunded by the 2002 Series B Bonds. As a result, the \$18,550,000 principal amount of the 1999 Series Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet.

In August 2003, \$56,530,000 of the 1999 Series Bonds were refunded by the 2003 Series A Bonds. As a result, the \$56,530,000 principal amount of the 1999 Series Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet.

In December 2004, \$4,665,000 of the 1999 Series Bonds were refunded by the 2004 Series B Bonds. As a result, the \$4,665,000 principal amount of the 1999 Series Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet.

The remaining bonds payable mature at various amounts through 2011.

1997 Series Refunding Bonds

In December 2002, \$26,335,000 of the 1997 Series Bonds were refunded by the 2002 Series B Bonds. As a result, the \$26,335,000 principal amount of the 1997 Series Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet. In November 2007, \$125,079,930 of the 1997 Series Bonds were refunded by the 2007 Series B Bonds. As a result, the \$125,079,930 principal amount of the 1997 Series Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet.

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

D. BONDS PAYABLE (CONTINUED)

1994 Series

On January 13, 1994, the Authority issued \$314,970,113 of 1994 Series Bonds to fund the following:

- a. The costs of construction, renovation, reconstruction and/or improvement of several State office buildings and historic restoration projects.
- b. The costs of land acquisition and construction of South Woods State Prison.
- c. The cost of refunding a portion of the Authority's State Building Revenue Bonds, 1989 Series.
- d. Payment for a portion of interest payable on the 1994 Series Bonds through June 15, 1995.

The bonds consisted of both capital appreciation bonds and current interest bonds, with interest rates ranging from 4.2% to 5.0%.

In December 2002, \$164,920,000 of the 1994 Series Bonds were refunded by the 2002 Series B Bonds. As a result, the \$164,920,000 principal amount of the 1994 Series Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet.

In August 2003, \$76,770,000 of the 1994 Series Bonds were refunded by the 2003 Series A Bonds. As a result, the \$76,770,000 principal amount of the 1994 Series Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet.

The final bond principal and interest expense payments were made in 2006.

1991 Series

On October 9, 1991, the Authority issued \$74,999,816 of 1991 Series Bonds (Garden State Savings Bonds) to partially fund the State House Complex Project. These bonds were issued as capital appreciation bonds which mature in various amounts from June 2000 through 2011. Yields on these bonds range from 6.10% to 6.75%.

In December 2004, \$10,739,817 of the 1991 Series Bonds were refunded by the 2004 Series B Bonds. As a result, the \$10,739,817 principal amount of the 1991 Series Bonds is considered to be defeased, and the liability for such bonds was removed from the balance sheet. The defeased bonds were paid off in 2006.

Defeased Bonds

The Authority has refunded various general obligation bond issuances by creating separate irrevocable trust funds. Refunding bonds have been issued, the proceeds from which are used to purchase U.S. Treasury Obligations - State and Local Government Series. The securities are deposited into an irrevocable trust fund and then held by the trustee. The investments themselves and the fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded debt has been considered defeased and has therefore been removed as a liability from the Authority's long-term debt. As of December 31, 2007, the amount of defeased general obligation debt outstanding but removed from the Authority's long-term debt amounted to \$412,700,000.

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

D. BONDS PAYABLE (CONTINUED)

The following table reflects the Authority's annual principal obligation for defeased general obligation debt outstanding:

2008	\$ 29,385,000
2009	30,825,000
2010	32,480,000
2011	34,125,000
2012	43,945,000
2013-2017	189,775,000
2018-2020	<u>52,165,000</u>
Total	<u>\$ 412,700,000</u>

E. FUTURE DEBT SERVICE PAYMENTS

The following tables reflect the debt service by year for the various Series Bonds issued by the Authority:

1991 Capital Appreciation Bond (net of 2004 refunding)			
Year	Principal or sinking fund installment	Interest	Total debt service
2008	\$ 4,506,031	\$ 9,023,969	\$ 13,530,000
2009	4,181,254	9,343,746	13,525,000
2010	3,912,647	9,612,353	13,525,000
2011	3,662,706	9,867,294	13,530,000
	<u>\$ 16,262,638</u>	<u>\$ 37,847,362</u>	<u>\$ 54,110,000</u>

1999 Series Bond (net of 2002, 2003 and 2004 refunding)			
Year	Principal or sinking fund installment	Interest	Total debt service
2008	\$ 6,490,000	\$ 1,401,025	\$ 7,891,025
2009	6,835,000	1,042,700	7,877,700
2010	7,220,000	647,163	7,867,163
2011	7,645,000	219,794	7,864,794
	<u>\$ 28,190,000</u>	<u>\$ 3,310,682</u>	<u>\$ 31,500,682</u>

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

E. FUTURE DEBT SERVICE PAYMENTS (CONTINUED)

2000 Series Bond (net of 2002, 2003 and 2004 refunding)			
Year	Principal or sinking fund installment	Interest	Total debt service
2008	\$ 1,215,000	\$ 282,811	\$ 1,497,811
2009	1,270,000	225,960	1,495,960
2010	1,325,000	165,944	1,490,944
2011	1,390,000	102,125	1,492,125
2012	1,455,000	34,556	1,489,556
	<u>\$ 6,655,000</u>	<u>\$ 811,396</u>	<u>\$ 7,466,396</u>

2002 Series A Bond (net of 2003 and 2004 refunding)			
Year	Principal or sinking fund installment	Interest	Total debt service
2008	\$ 2,750,000	\$ 546,475	\$ 3,296,475
2009	2,840,000	463,975	3,303,975
2010	2,935,000	371,675	3,306,675
2011	3,040,000	268,950	3,308,950
2012	3,175,000	158,750	3,333,750
	<u>\$ 14,740,000</u>	<u>\$ 1,809,825</u>	<u>\$ 16,549,825</u>

2002 Series B Bond			
Year	Principal or sinking fund installment	Interest	Total debt service
2008	\$ 21,900,000	\$ 8,076,338	\$ 29,976,338
2009	23,075,000	6,926,588	30,001,588
2010	14,370,000	5,715,150	20,085,150
2011	18,565,000	4,960,725	23,525,725
2012	21,160,000	3,986,063	25,146,063
2013	18,380,000	2,875,163	21,255,163
2014	17,690,000	1,910,213	19,600,213
2015	18,695,000	981,488	19,676,488
	<u>\$ 153,835,000</u>	<u>\$ 35,431,728</u>	<u>\$ 189,266,728</u>

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

E. FUTURE DEBT SERVICE PAYMENTS (CONTINUED)

2003 Series A Bond (net of 2003 and 2004 refunding)			
Year	Principal or sinking fund installment	Interest	Total debt service
2008	\$ 3,350,000	\$ 6,680,158	\$ 10,030,158
2009	3,300,000	6,364,697	9,664,697
2010	3,575,000	6,228,002	9,803,002
2011	3,575,000	6,299,197	9,874,197
2012	8,675,000	5,880,830	14,555,830
2013	9,025,000	5,723,243	14,748,243
2014	8,650,000	5,244,120	13,894,120
2015	10,925,000	5,029,732	15,954,732
2016	11,200,000	4,470,731	15,670,731
2017	30,975,000	3,702,072	34,677,072
2018	36,225,000	2,541,301	38,766,301
2019	30,250,000	1,307,923	31,557,923
2020	6,975,000	678,842	7,653,842
2021	4,875,000	442,452	5,317,452
2022	5,050,000	278,501	5,328,501
2023	5,250,000	88,806	5,338,806
	<u>\$ 181,875,000</u>	<u>\$ 60,960,607</u>	<u>\$ 242,835,607</u>

2004 Series A Bond			
Year	Principal or sinking fund installment	Interest	Total debt service
2008	\$ 470,000	\$ 119,025	\$ 589,025
2009	485,000	99,925	584,925
2010	500,000	82,725	582,725
2011	515,000	66,856	581,856
2012	530,000	49,544	579,544
2013	550,000	30,631	580,631
2014	570,000	10,331	580,331
	<u>\$ 3,620,000</u>	<u>\$ 459,037</u>	<u>\$ 4,079,037</u>

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NOTES TO FINANCIAL STATEMENTS

E. FUTURE DEBT SERVICE PAYMENTS (CONTINUED)

Year	2004 Series B Bond		
	Principal or sinking fund installment	Interest	Total debt service
2008	\$ 6,785,000	\$ 1,835,606	\$ 8,620,606
2009	7,130,000	1,496,356	8,626,356
2010	7,500,000	1,139,856	8,639,856
2011	45,000	766,731	811,731
2012	50,000	765,213	815,213
2013	3,390,000	763,463	4,153,463
2014	3,570,000	592,988	4,162,988
2015	3,760,000	405,562	4,165,562
2016	3,965,000	208,162	4,173,162
	<u>\$ 36,195,000</u>	<u>\$ 7,973,937</u>	<u>\$ 44,168,937</u>

Year	2006 Series A Bond		
	Principal or sinking fund installment	Interest	Total debt service
2008	\$ 1,520,000	\$ 2,151,425	\$ 3,671,425
2009	1,610,000	2,061,550	3,671,550
2010	1,700,000	1,974,775	3,674,775
2011	1,785,000	1,892,113	3,677,113
2012	1,865,000	1,809,988	3,674,988
2013	1,950,000	1,724,150	3,674,150
2014	2,035,000	1,634,488	3,669,488
2015	2,125,000	1,535,575	3,660,575
2016	2,235,000	1,426,575	3,661,575
2017	2,345,000	1,320,869	3,665,869
2018	2,445,000	1,222,138	3,667,138
2019	2,545,000	1,122,338	3,667,338
2020	2,645,000	1,016,884	3,661,884
2021	2,755,000	905,509	3,660,509
2022	2,865,000	787,806	3,652,806
2023	2,990,000	663,388	3,653,388
2024	3,115,000	529,763	3,644,763
2025	3,255,000	386,438	3,641,438
2026	3,405,000	236,588	3,641,588
2027	3,555,000	79,988	3,634,988
	<u>\$ 48,745,000</u>	<u>\$ 24,482,348</u>	<u>\$ 73,227,348</u>

NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

E. FUTURE DEBT SERVICE PAYMENTS (CONTINUED)

Year	2007 Series A Bond		
	Principal or sinking fund installment	Interest	Total debt service
2008	\$ -	\$ 5,236,021	\$ 5,236,021
2009	2,200,000	4,778,250	6,978,250
2010	2,335,000	4,664,875	6,999,875
2011	2,370,000	4,547,250	6,917,250
2012	2,615,000	4,422,625	7,037,625
2013	2,765,000	4,288,125	7,053,125
2014	2,955,000	4,145,125	7,100,125
2015	3,060,000	3,994,750	7,054,750
2016	3,370,000	3,834,000	7,204,000
2017	3,590,000	3,660,000	7,250,000
2018	5,785,000	3,425,625	9,210,625
2019	6,020,000	3,130,500	9,150,500
2020	6,295,000	2,822,625	9,117,625
2021	6,575,000	2,500,875	9,075,875
2022	6,870,000	2,164,750	9,034,750
2023	7,210,000	1,812,750	9,022,750
2024	7,575,000	1,443,125	9,018,125
2025	7,950,000	1,055,000	9,005,000
2026	8,355,000	647,375	9,002,375
2027	8,770,000	219,250	8,989,250
	<u>\$ 96,665,000</u>	<u>\$ 62,792,896</u>	<u>\$ 159,457,896</u>

Year	2007 Series B Bond		
	Principal or sinking fund installment	Interest	Total debt service
2008	\$ 9,305,000	\$ 6,249,771	\$ 15,554,771
2009	7,150,000	5,339,750	12,489,750
2010	7,505,000	4,973,375	12,478,375
2011	17,590,000	4,346,000	21,936,000
2012	18,465,000	3,444,625	21,909,625
2013	19,395,000	2,498,125	21,893,125
2014	7,290,000	1,831,000	9,121,000
2015	7,650,000	1,457,500	9,107,500
2016	8,035,000	1,065,375	9,100,375
2017	8,435,000	653,625	9,088,625
2018	8,855,000	221,375	9,076,375
	<u>\$ 119,675,000</u>	<u>\$ 32,080,521</u>	<u>\$ 151,755,521</u>

NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

E. FUTURE DEBT SERVICE PAYMENTS (CONTINUED)

Year	Total debt service
2008	\$ 93,643,884
2009	98,219,751
2010	88,453,540
2011	93,519,741
2012	78,542,194
2013	73,357,900
2014	58,128,265
2015	59,619,607
2016	39,809,843
2017	54,681,566
2018	60,720,439
2019	44,375,761
2020	20,433,351
2021	18,053,836
2022	18,016,057
2023	18,014,944
2024	12,662,888
2025	12,646,438
2026	12,643,963
2027	<u>12,624,238</u>
Subtotal, gross debt	968,168,206
Less: interest portion	(267,960,339)
Add: accreted interest 1991 Series Bonds	<u>37,743,535</u>
Net Bonds Payable	<u>\$ 737,951,402</u>

F. ADJUSTMENTS - RECONCILIATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS AND GOVERNMENT-WIDE FINANCIAL STATEMENTS

- (1) During 2003 and 2002, the Authority refunded some of its existing debt. The amount borrowed was received by the Governmental Funds and increased the fund balance. The amount that was sent to the paying agent to be escrowed for payment of the old debt as it comes due was paid out of the Governmental Funds and reduced the fund balance. The difference between those amounts will be amortized as an adjustment in the statement of activities over the remaining life of the refunded debt (varying amounts from twelve to nineteen years).

During 2004, the Authority refunded some of its existing debt. The amount borrowed was received by the Governmental Funds and increases fund balance. The amount that was sent to the paying agent (\$52,509,200) to be escrowed for payment of the old debt (\$49,248,006) as it comes due was paid out of the Governmental Funds and reduces fund balance. The difference between those amounts was \$3,261,194 and will be amortized as an adjustment in the statement of activities over the remaining life of the refunded debt (varying amounts from two to twelve years).

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

F. ADJUSTMENTS - RECONCILIATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS AND GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

During 2007, the Authority refunded the 1997 Series Bonds (net of 2002 refunding). The amount borrowed was received by the Governmental Funds and increases fund balance. The amount that was sent to the paying agent (\$125,079,930) to be escrowed for payment of the old debt (\$120,055,000) as it comes due was paid out of the Governmental Funds and reduces fund balance. The difference between those amounts was \$5,024,930 and will be amortized as an adjustment in the statement of activities over the remaining life of the refunded debt (varying amounts from two to nine years).

	December 31,	
	2007	2006
2002 refunding	\$ 10,465,376	\$ 11,119,462
2003 refunding	7,195,653	7,995,170
2004 refunding	843,897	937,663
2007 refunding	5,002,086	-
	<u>\$ 23,507,012</u>	<u>\$ 20,052,295</u>

- (2) Unamortized bond issuance costs are recorded as deferred charges (assets) in the statement of net assets and are amortized over the life of the debt. Amortization expense is recorded in the statement of activities. In governmental fund financial statements, bond issuance costs are expensed when incurred.

	December 31,	
	2007	2006
Total unamortized bond issuance cost	\$ 5,298,697	\$ 4,709,923
Related amortization expense	\$ 501,225	\$ 477,420
Bond issuance costs	<u>\$ 1,089,999</u>	<u>\$ 1,234,245</u>

- (3) When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets is reported as an expenditure in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Authority as a whole.

	December 31,	
	2007	2006
Cost of property and equipment	\$ 69,762	\$ 62,178
Accumulated depreciation	(33,851)	(26,967)
Property and equipment, net	<u>\$ 35,911</u>	<u>\$ 35,211</u>
Construction in progress	<u>\$ 38,456,786</u>	<u>\$ 185,441,950</u>
Capital outlay	<u>\$ 14,842,510</u>	<u>\$ 19,065,641</u>

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

F. ADJUSTMENTS - RECONCILIATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS AND GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

- (4) Minimum lease payments receivable are not part of the Authority's governmental fund activities because no portion of this balance is available to finance liabilities at year end.

	December 31,	
	2007	2006
Minimum lease receivable	<u>\$ 543,973,094</u>	<u>\$ 450,110,211</u>

- (5) Unmatured principal and accrued interest applicable to the Authority's governmental activities are not shown as liabilities or expenses until they are due and payable. Unamortized bond premiums, net of discounts, are recorded as liabilities in the statement of net assets and are amortized over the life of the debt. Amortization revenue is recorded in the statement of activities. In governmental fund financial statements, net bond premiums are recognized as revenue when received. All liabilities - both current and long-term - are reported in the statement of net assets.

	December 31,	
	2007	2006
Accrued bond interest payable	<u>\$ 2,212,971</u>	<u>\$ 1,097,112</u>
Related adjustment to interest expense	<u>\$ 3,916,713</u>	<u>\$ (93,014)</u>
Bonds payable	<u>\$ 737,951,402</u>	<u>\$ 706,595,808</u>
Unamortized bond premiums, net of discounts	<u>\$ 17,602,107</u>	<u>\$ 8,179,281</u>
Amortization income	<u>\$ 2,232,471</u>	<u>\$ 2,119,095</u>

- (6) Amortization expense in the governmental fund (\$0) differs from amortization expense in the statement of activities (\$3,896,805 in 2007 and \$5,122,009 in 2006). The difference is a result of the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds.
- (7) Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. Proceeds were received from:

	Year Ended December 31,	
	2007	2006
Debt issuance	<u>\$ 216,340,000</u>	<u>\$ 48,745,000</u>
Premium on debt issued	<u>\$ 9,829,929</u>	<u>\$ 1,072,908</u>

NEW JERSEY BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

F. ADJUSTMENTS - RECONCILIATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS AND GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

Repayment of bond principal is reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the Authority as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The Authority's bond debt was reduced by principal payments made to bondholders.

	<u>Year Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Principal payments made	<u>\$ 60,006,248</u>	<u>\$ 42,607,452</u>

(8) The amounts received from the State for debt service principal payments of \$60,006,248 during 2007 and \$42,607,452 during 2006 constitute governmental fund revenue and thus are not included in the Authority's statements of activities.

(9) The Authority had an arbitrage rebate calculation performed at December 31, 2007, that resulted in a liability of \$694,475, which will be required to be paid to the Internal Revenue Service in the future. This amount is also included as an arbitrage rebate expense at December 31, 2007.

G. GASB STATEMENT NUMBER 45 - ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POST RETIREMENT BENEFITS OTHER THAN PENSION

The Authority is a member of the State of New Jersey's cost sharing multiple-employer plan for health and post retirement medical benefits. Thus, pursuant to the Authority's implementation of GASB Statement Number 45 on January 1, 2008, their portion of this liability and cost will be included in the State of New Jersey's CAFR on an annual basis.

As such, the liability for Authority employees' is covered under the state plan.

Please refer to State website www.state.nj.us for more information regarding the plan.